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Westly Calls on Insurers to Prepare for Global Warming

SACRAMENTO – State Controller Steve Westly today called on the nation's largest insurance companies to analyze and prepare for the impact that climate change could have on them.

"We must be assured that our economy is protected from disaster," Westly said. "Insurance is a major industry that nearly every business relies on, so its lack of preparedness could be devastating."

Westly is helping to lead an effort by institutional investors controlling $800 billion in assets to push the insurance industry to identify and address the risks caused by changes to the global climate.

Rising global temperatures will likely increase the frequency and intensity of extreme natural events like floods, droughts, wildfires and hurricanes, according to Ceres, a national network of investment funds and others that analyzes the links between environmental conditions and the economy. The last two hurricane seasons were devastating for the United States. Last year saw a then-record $30 billion in insured losses, while this year's Hurricane Katrina alone is estimated to have caused as much as $60 billion in losses.

In addition to being California's Chief Financial Officer, Westly is a trustee at CalPERS and CalSTRS, which represent more than $300 billion in assets and are the nation's first and third largest pension funds.

Westly has been a leader in pushing businesses to prepare for the consequences of climate change. At Westly's urging, CalPERS and CalSTRS are helping lead the Carbon Disclosure Project, which is pressing the world's 500 largest corporations to assess risks they may face as a result of global warming.

A copy of the letter Westly and 18 other leading institutional investors sent to the nation's 30 largest insurance companies is attached. The letter is part of an ongoing effort by the Investors Network on Climate Risk, which Westly helped launch during the Institutional Investor Summit on Climate Risk at the United Nations. A list of the insurance companies is also attached.

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December 1, 2005

Dear Insurance Company CEO:

We, as investors managing over $600 billion in invested assets, are writing to request that insurance company undertake a comprehensive analysis of the business implications of climate change on the company and report the findings of that analysis to your shareholders. Such disclosure is a growing priority among institutional investors, many of which are part of the Institutional Investors on Climate Risk.

A growing number of companies in the energy sectors are evaluating the impact of climate change on their companies and reporting back to their shareholders. While more insurance companies are acknowledging the seriousness of climate change, few if any companies have examined the broad financial risks and opportunities from this issue and potential impacts on shareholder value. Just last fall, for example, New York City Comptroller William C. Thompson Jr. surveyed 13 insurance companies that the city's pension funds were invested in to better assess how the companies were addressing the issue. Eight companies responded and none provided any assurance that climate risk was seriously being assessed or considered. As one of the 30 largest U.S. insurance companies needs to explore such questions via a comprehensive evaluation.

Climate change is a particular concern to investors in insurance companies. It has the potential to impact nearly every segment of the industry, including: property (increased losses from severe weather); health and life (global disease spread and loss of life from severe weather); directors and officers' liability (potential shareholder suits for breach of fiduciary duty on climate change); and invested assets.

Hurricane Katrina is only the latest reminder that U.S. insurers, governments and consumers are at enormous risk from the escalating losses caused by extreme weather events and climate change. While no individual weather event can ever be attributed to global warming, scientific data indicate that rising global temperatures will likely increase the frequency and intensity of hurricanes, floods, drought, wildfires and other extreme weather events – and, indeed, may already be doing so.

A recent white paper published by Ceres, "Availability and Affordability of Insurance Under Climate Change: A Growing Challenge for the U.S.," documents the precipitous rise in insured and uninsured weather-related losses in the U.S. in recent years and how climate change will likely magnify these losses in the years ahead. The report cites a 15-fold increase in insured losses from catastrophic weather events in the past three decades – losses that have far out-stripped premium increases, inflation and population growth over the same time period.

One positive development in the wake of Katrina is that more insurance companies, investors and regulators are taking notice of this emerging problem. In late October, Connecticut State Treasurer Denise L. Nappier, Insurance Commissioner Susan F. Cogswell and Environment Commissioner Gina McCarthy hosted a global climate change summit that attracted more than 100 insurance and investor leaders from Connecticut, the U.S. and Europe. The forum, which focused on the risks and opportunities that the industry faces from climate change, was the first meeting of its kind in the country. On Dec. 3, the National Association of Insurance Commissioners will be holding a panel discussion on the topic at its winter meeting in Chicago.

The challenge now is taking concrete action. We are calling on insurers to undertake a comprehensive analysis of the business implications of climate change for their companies, and to share those results with their shareholders. At a minimum, we believe that a climate risk analysis and report to shareholders should include the following elements:

- **Corporate Climate Actions –** Companies should analyze and report on what specific actions they are taking to address climate change. The report should include corporate governance actions, such as establishing corporate climate policy or Board consideration of climate change. The report should also describe specific actions the company is taking to address the impact of climate change on shareholder value, including possible development of enhanced climate risk modeling, programs to help clients they insure to reduce their risk from climate change, and reducing their own emissions.

- **Strategic Analysis and Plan –** Companies should report to shareholders on management's strategic analysis of the climate change issue, including its implications for competitiveness, and its plan for meeting any strategic challenges it may identify. Climate change represents a significant strategic challenge, so analysis that fails to identify any future challenges is likely to be viewed as deficient. In addition, this disclosure should explain the company's current position on the science and policy of climate change.

- **Impacts on Investments –** Companies should analyze the impacts that climate change will have on its investment portfolio, including carbon-emitting sectors vulnerable to regulatory risks and 'opportunity' investments in emerging clean energy industries. Sectors with potential exposure from the health and physical impacts from climate change should also be evaluated. A portfolio-wide analysis will identify risks and opportunities from climate change.

As investors, we ask that you prepare a report for shareholders outlining your climate risk exposure and your strategies for responding. We request that the report be done within eight months.

Please send a response to this letter to Ceres, c/o Andrew Logan, Insurance Program Director, who will distribute your responses to all of those who have signed below. Andrew Logan can be reached at Ceres at (617) 247-0700 ext. 33 or logan@ceres.org. His mailing address is Ceres, 99 Chauncy St., Boston, MA 02111-1703.

We hope that insurance company will assume a leadership role with respect to these important challenges, which will result in enhanced shareholder value for all investors.

Signed

STEVE WESTLY
California State Controller

The 30 companies receiving the letter are the largest in the life, health, property/casualty and reinsurance sectors - sectors all deemed to be at risk from climate change. The companies are as follows:

Full-Line
AIG, New York City
Hartford Financial Services Group, Hartford, CT

Life
Manulife Financial, Toronto, Canada
Prudential Financial, Newark, NJ
Metlife, New York City
Great West Life, Co., Canada
Sun Life Financial, Toronto, Canada
Genworth Financial, Richmond, VA
Principal Financial Group, Iowa
Lincoln National Corp., Philadelphia, PA
Jefferson Pilot, Greensboro, NC
Torchmark Corp., Birmingham, AL
Nationwide Financial Services, Columbus, OH

Health
UnitedHealth Group, Minnesota
Wellpoint Health Networks, Thousand Oaks, CA
Aetna, Hartford, CT
Cigna, Philadelphia, PA

Property & Casualty
Allstate, Northbrook, IL
St. Paul Travelers, St. Paul, MN
Progressive, Ohio
Chubb, New Jersey
Ace Limited, Philadelphia/Bermuda
XL Capital Limited, Bermuda
CAN Financial, Chicago, IL
Cincinnati Finance, OH
Safeco, Seattle, WA

Reinsurance
Everest RE, Bermuda
Berkshire Hathaway/General RE, Omaha, NE

Brokers/Risk Advisors
Marsh & McLennan, New York City
AON Corp., Chicago, IL